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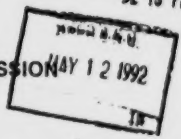

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

82-2228

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 28, 1992

Commission file number 1-4529

ARMSTRONG PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	06-0706695 (I.R.S. Employer Identification No.)
71 Elm Street **New Canaan, Connecticut** (Address of principal executive offices)	06840 (Zip Code)

(203) 966-4170
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___.

As of March 28, 1992, there were 13,419,840 shares of the registrant's common stock outstanding.

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ARMSTRONG PHARMACEUTICALS, INC. AND SUBSIDIARIES

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Item 1. **Financial Statements**

ARMSTRONG PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 28, 1992 (Unaudited)	September 28, 1991 (Audited)
ASSETS		
CURRENT ASSETS:		
Cash	$2,193,417	$2,326,587
Accounts receivable	1,708,416	1,822,868
Unbilled receivables	1,363,644	1,117,552
Inventories	463,096	372,410
Prepaid expenses and other current assets	326,287	265,682
Total current assets	6,054,860	5,905,099
PROPERTY AND EQUIPMENT – Net	1,514,604	1,231,940
EQUIPMENT UNDER CAPITAL LEASE – Net	976,854	1,011,295
OTHER ASSETS	36,245	60,166
	$8,582,563	$8,208,500
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$589,192	$684,224
Accrued expenses	380,796	574,287
Accrued professional fees	95,922	116,418
Current portion – accrued pension expense	59,220	64,507
Capital lease obligation, current portion	231,068	246,341
State income taxes payable	87,157	123,800
Total current liabilities	1,443,355	1,809,577
ACCRUED PENSION EXPENSE – Less current portion	112,149	112,149
DEFERRED LIABILITIES	89,896	89,896
SUBORDINATED DEBENTURES	–	625,000
CAPITAL LEASE OBLIGATION – Less current portion	464,878	570,434
COMMITMENTS		
STOCKHOLDERS' EQUITY:		
Common Stock, par value $.08 per share: Authorized–20,000,000 shares Outstanding – 13,419,840 shares as of March 28, 1992 and 12,948,163 as of September 28, 1991	1,073,587	1,035,853
Additional paid–in capital	15,007,700	14,385,680
Deficit	(9,495,508)	(10,329,050)
Treasury stock – at cost	(113,494)	(91,039)
Total stockholders' equity	6,472,285	5,001,444
	$8,582,563	$8,208,500

ARMSTRONG PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three months ended		Six months ended	
	March 28, 1992	March 30, 1991	March 28, 1992	March 30, 1991
NET SALES	$3,003,378	$3,654,496	$6,343,892	$6,609,666
COSTS AND EXPENSES:				
Cost of sales	1,755,945	2,602,442	3,848,390	4,646,092
Selling, general and administrative	588,837	488,734	1,131,912	927,548
Research and development	142,431	63,283	302,953	100,369
Total	2,487,213	3,154,459	5,283,255	5,674,009
INCOME FROM OPERATIONS	516,165	500,037	1,060,637	935,657
OTHER INCOME (EXPENSE):				
Interest expense	(37,626)	(59,778)	(83,514)	(101,512)
Interest income	34,365	32,330	46,795	43,552
Other (net)	(14,467)	(48,565)	(80,438)	(137,641)
Total	(17,728)	(76,013)	(117,157)	(195,601)
INCOME BEFORE TAXES	498,437	424,024	943,480	740,056
PROVISION FOR TAXES	55,536	56,819	109,938	99,167
NET INCOME	$442,901	$367,205	$833,542	$640,889
EARNINGS PER COMMON SHARE:				
Primary	$0.03	$0.03	$0.06	$0.05
Fully diluted	$0.03	$0.03	$0.06	$0.05
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING:				
Primary	14,950,731	13,574,633	14,830,346	13,507,290
Fully diluted	14,950,731	14,194,633	14,966,604	14,127,290

See notes to consolidated financial statements.

ARMSTRONG PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)	Three months ended March 28, 1992	Three months ended March 30, 1991	Six months ended March 28, 1992	Six months ended March 30, 1991
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$442,901	$367,205	$833,542	$640,889
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	129,742	77,173	232,474	179,277
Increase (decrease) in cash from:				
Accounts receivable and unbilled receivables	54,872	409,229	(131,640)	295,058
Inventories	(75,709)	(761,060)	(90,686)	(653,963)
Prepaid expenses and other current assets	19,781	60,376	(60,605)	(35,031)
Other assets	15,938	46,298	23,921	48,159
Accounts payable	1,042	425,390	(95,032)	155,576
Accrued expenses	(12,714)	85,093	(193,491)	71,311
Accrued professional fees	(38,131)	2,338	(20,496)	4,826
Income taxes payable	(20,534)	19,808	(36,643)	22,950
Accrued pension	12,638	(10,987)	(5,287)	(22,987)
Net cash provided by operating activities	529,826	720,863	456,057	706,065
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	(305,296)	(102,484)	(480,697)	(192,192)
Net cash used in investing activities	(305,296)	(102,484)	(480,697)	(192,192)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Principal payments capital lease obligation	(60,113)	(55,384)	(120,830)	(106,258)
Payment of subordinated debenture	(25,000)	–	(25,000)	–
Proceeds from the exercise of stock options	37,300	–	37,300	–
Net cash used in financing activities	(47,813)	(55,384)	(108,530)	(106,258)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	176,717	562,995	(133,170)	407,615
CASH AND CASH EQUIVALENTS:				
Balance at beginning of period	2,016,700	1,245,152	2,326,587	1,400,532
Balance at end of period	$2,193,417	$1,808,147	$2,193,417	$1,808,147
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the fiscal year for:				
Interest paid	$83,514	$5,462	$135,598	$57,546
Income taxes paid	–	61,639	107,318	99,500
Noncash investing and financing activities:				
Subordinated debentures converted to common stock	600,000	–	600,000	–

See notes to consolidated financial statements.

ARMSTRONG PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Unaudited Financial Information

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments that are necessary for a fair presentation of such information for the periods presented.

The accounting policies followed by the Company are set forth in Note 2 of the Company's 1991 consolidated financial statements included in the Armstrong Pharmaceuticals, Inc. Form 10 - K.

Note 2 - Earnings per Share

During the second quarter of fiscal 1992, 600,000 shares of common stock were issued on conversion of the Company's senior subordinated 13% convertible debentures. Common shares issuable upon conversion of these 13% convertible debentures have been included in the calculation of earnings per share in prior periods.

Earnings per common share was computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding during the quarter and six months of fiscal 1992. The number of common shares was increased by the number of shares issuable on the exercise of options when the market price of the common stock exceeded the exercise price of the options. This increase in the number of common shares was reduced by the number of common shares that are assumed to have been purchased with the proceeds from the exercise of the options; those purchases were assumed to have been made at the average price of the common stock during that part of the quarter when the market price of the common stock exceeded the exercise price of the options.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

SALES. In the second fiscal quarter of 1992 the Company's net sales decreased by $651,118 or 17.8% from sales in the same fiscal quarter of 1991. In the first six fiscal months of 1992 the Company's net sales decreased by $265,774 or 4.0% from net sales in the same six fiscal months of 1991. The decrease resulted mainly from declining sales revenue and unit volume of opthalmic saline solution. The Company believes that declining sales revenue in opthalmic saline is the result of industry-wide excess manufacturing capacity and slack demand in the end-user market for saline eye care products.

GROSS MARGINS. Gross margins were 41.5% and 28.7% of sales revenues for each of the second fiscal quarters of 1992 and 1991, respectively. Gross margins were 39.3% and 29.7% of sales revenues for the first six fiscal months of 1992 and 1991, respectively. The increase was mainly attributable to increased sales of higher margin metered dose inhalers (MDIs) and the decrease in lower margin, higher price opthalmic saline.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses as a percent of net sales were 19.6% and 13.4% respectively for the second fiscal quarters of fiscal 1992 and 1991. Selling, general and administrative expense as a percent of net sales were 17.8% and 14.0% respectively for the first six months of fiscal 1992 and 1991. The increase as a percent of net sales is attributable to the decline in net sales for the period and to the absolute increase in such expenses. The absolute increase in selling, general and administrative expense is primarily attributable to business development activities for the Company's generic MDI, alternative propellant and aerosol formulation development programs.

RESEARCH AND DEVELOPMENT. In the second fiscal quarter of 1992 research and development expenses were $142,431 or 4.7% of net sales as compared to $62,283 or 1.7% of net sales in the second quarter of fiscal 1991. In the first six fiscal months of 1992 research and development expenses were $302,953 or 4.8% of net sales as compared to $100,369 or 1.5% of net sales in the first six fiscal months of 1991. The increase is attributable to the Company's generic MDI, alternative propellant and aerosol formulation development programs at its Delphi subsidiary.

OTHER EXPENSE (NET). Other expense (net) was $17,728 in the second fiscal quarter of 1992 as compared to $76,013 in the second fiscal quarter of 1991. Other expense was $117,157 in the first six fiscal months of 1992 as compared to $195,601 in the first six fiscal months of 1991. The decrease in other expense (net) is mainly attributable to an increase in other income derived from fees for engineering services at the Company's manufacturing subsidiary.

INCOME TAXES. Due to net operating loss carryforwards, the Company incurred only state and alternative minimum income tax liabilities of $55,536 and $56,819 for the second fiscal quarters of 1992 and 1991 respectively. State and alternative minimum income tax liabilities were $109,938 and $99,167 for the first six fiscal months of 1992 and 1991 respectively.

NET INCOME. The Company achieved net income of $442,901 and $367,205 for the second quarters of 1992 and 1991, respectively. The Company's net income as a percent of net sales was 14.7% and 10% for the second fiscal quarters of 1992 and 1991, respectively. Net income was $833,542 and $640,889 for the first six fiscal months of 1992 and 1991 respectively, and as a percent of net sales was 13.1% and 9.7% respectively. The increase in net income in the first quarter of fiscal 1992 was mainly attributable to the increasing percentage of revenues derived from the Company's MDI business.

Liquidity and Capital Resources

The Company's net working capital on March 28, 1992 was $4,611,505 representing an increase of $515,983 over its net working capital on September 28, 1991. This resulted mainly from an increase in accounts receivable and inventory and a decrease in accounts payable and accrued expenses.

The Company has in place a $1,250,000 lease line of credit, available to finance the acquisition of production and computer equipment. At March 28, 1992 there was approximately $494,000 of unused credit available under this facility. The equipment lease line of credit bears interest that is based on treasury note yields at inception and is fixed for the term of the lease. The Company has no present plans to make any material expenditures for equipment and anticipates that the unused portion of this credit facility will remain substantially unused for the current fiscal year.

The Company also has in place a $600,000 line of credit with a bank. Amounts drawn down under the line are payable upon demand and bear interest at a rate of prime plus 3/4%. At March 28, 1992 there were no amounts outstanding thereunder.

Management believes the foregoing arrangements will be sufficient to fund its anticipated working capital and capital expenditure requirements.

During the second quarter of fiscal year 1992, the Company converted its $500,000 and $100,000 13% convertible senior subordinated debentures ("13% debentures") and redeemed its $25,000 11% junior subordinated debenture ("11% debenture).

As a result, the Company issued 600,000 shares of common stock to the holders of the 13% debentures. The Company redeemed the 11% debenture for $25,000.

PART II - OTHER INFORMATION

Item 6. Exhibits and reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

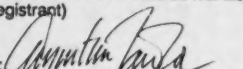
There were no reports on Form 8-K filed for the quarter ended March 28, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ARMSTRONG PHARMACEUTICALS, INC.
(Registrant)

May 11, 1992
Date

By: 
Augustine Lawlor
Vice President
Chief Financial Officer